

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Alternative Investments  
Activity Status Report

ITEM NUMBER: 10

ATTACHMENT(S): 4

ACTION: \_\_\_\_\_

DATE OF MEETING: August 4, 1999

INFORMATION: X

PRESENTER(S): Mr. Desrochers

The table below contains Alternative Investment activity for the month of June 1999 and historical information for selected time periods.

	Month Ended 6/30/99	Fiscal Year To Date	Past One Year	Past Three Years	Past Five Years
<u>Commitments:</u>					
Partnerships	\$ 0	\$ 839,625,000	\$ 839,625,000	\$ 3,169,390,077	\$ 4,013,510,024
Co-Investments	0	0	0	47,000,000	47,000,000
Secondaries	0	9,293,828	9,293,828	9,293,828	9,293,828
	<b>\$ 0</b>	<b>\$ 848,918,828</b>	<b>\$ 848,918,828</b>	<b>\$ 3,225,683,905</b>	<b>\$ 4,069,803,852</b>
<u>Contributions:</u>					
Partnerships	\$ 56,488,517	\$ 724,304,981	\$ 724,304,981	\$ 1,633,598,483	\$ 2,131,276,795
Co-Investments	0	0	0	47,000,000	47,000,000
Secondaries	0	7,761,829	7,761,829	7,761,829	8,471,333
Mgmt. Fee (Outside)	0	8,720,471	8,720,471	22,657,726	30,285,953
	<b>\$ 56,488,517</b>	<b>\$ 740,787,281</b>	<b>\$ 740,787,281</b>	<b>\$ 1,711,018,038</b>	<b>\$ 2,217,034,081</b>
<u>Distributions:</u>					
Cash	\$ 19,695,945	\$ 331,401,850	\$ 331,401,850	\$ 976,781,958	\$ 1,183,328,882
Stock	18,608,875	173,288,070	173,288,070	387,727,801	525,348,645
	<b>\$ 38,304,820</b>	<b>\$ 504,689,920</b>	<b>\$ 504,689,920</b>	<b>\$ 1,364,509,759</b>	<b>\$ 1,708,677,527</b>
Stock Sales	\$ 8,485,584	\$ 148,349,764	\$ 148,349,764	\$ 320,083,587	\$ 458,450,354

Attachments 1 and 2 contain summaries of action taken under delegation of authority for purchases of secondary interests in KKR 1987 and KKR 1996, respectively.

Attachment 3 provides an executive summary of action taken under delegation of authority for a commitment of \$45 to \$50 million (or up to 10% of the fund) to VantagePoint Venture Partners III.

Attachment 4 provides an executive summary of action taken under delegation of authority for a \$25 million co-investment in Concentra Managed Care.

**KKR 1987  
SECONDARY INTEREST**

**INVESTMENT RECOMMENDATION  
DECISION UNDER DELEGATION OF AUTHORITY**

Recommendation

Long Term Credit Bank of Japan (LTCB) is selling its limited partnership interest in the KKR 1987 Fund. Staff recommends that CalSTRS purchase the KKR 1987 limited partnership interest. This investment is subject to negotiation of terms and legal review.

Background

The Kohlberg, Kravis Roberts & Co. – 1987 Fund, L.P., managed by KKR associates, was formed in 1987 with \$5,653 million in capital commitments. The fund makes leveraged buyout investments in privately or publicly owned companies, or in separately identifiable sub-parts thereof. The fund's five largest holdings in terms of reported value are Borden Foods, Gillette, Fleet Financial Group, PRIMEDIA, and KSL. The original term of the fund expired on September 25, 1993 and has been extended to December 31, 1999.

Investment Opportunity

The investment opportunity is being offered to a select number of bidders. CalSTRS has been approved by the KKR General Partners as an acceptable purchaser of the LTCB partnership interest. The 1987 Fund is fully invested and has six active portfolio companies, four of which are public, and two of which are private. The investment represents approximately 1% of the total capitalization of the KKR 1987 Fund.

Summary of STRS' Review Process

Staff conducted due diligence with regard to purchasing the KKR 1987 secondary interest. Staff calculated market values of the remaining portfolio companies as of March 31, 1999. Staff reviewed significant terms of the limited partnership agreement relating to management fees and carried interest allocations. Staff reviewed and validated the General Partners' valuation methodology, and calculated asset values based on the net/net value to the limited partners.

### Investment Thesis

- The KKR 1987 secondary purchase is consistent with the Alternative Investment Policy and Procedures Manual.
- Staff has identified KKR as a Tier 1 manager.
- Staff has determined that the purchase price for the secondary interest is appropriate.
- Staff has received a positive recommendation from its consultant, Pathway Capital Management.

By:

/s/ Trish Taniguchi  
Trish Taniguchi  
Investment Officer

Date 6/28/99

Recommended By:

/s/ Réal Desrochers  
Réal Desrochers  
Director of Alternative Investments

Date 6/28/99

Approved By:

/s/ Patrick Mitchell  
Patrick Mitchell  
Chief Investment Officer

Date 6/28/99

**KKR 1996  
SECONDARY INTEREST**

**INVESTMENT RECOMMENDATION  
DECISION UNDER DELEGATION OF AUTHORITY**

Recommendation

Long Term Credit Bank of Japan (LTCB) is selling its limited partnership interest in the KKR 1996 Fund. Staff recommends that CalSTRS purchase the KKR 1996 limited partnership interest. This investment is subject to negotiation of terms and legal review.

Background

The Kohlberg, Kravis Roberts & Co. – 1996 Fund, L.P., managed by KKR associates, was formed in 1996 with \$6,012 million in capital commitments. The fund makes leveraged buyout investments in privately or publicly owned companies, or in separately identifiable sub-parts thereof. The fund's five largest holdings in terms of reported value are Regal Cinemas, Amphenol, Willis Corroon, Randalls Food Markets, and PRIMEDIA. The fund expires on December 31, 2008.

Investment Opportunity

The investment opportunity is being offered to a select number of bidders. CalSTRS has been approved by the KKR General Partners as an acceptable purchaser of the LTCB partnership interest.

CalSTRS' has a current commitment of \$300 million (plus estimated management fees not to exceed \$22.2 million) in the KKR 1996 Fund. CalSTRS' current investment, coupled with this proposed secondary purchase, would represent 5.8% of the total capitalization of the KKR 1996 Fund.

Summary of STRS' Review Process

Staff conducted due diligence with regard to purchasing the KKR 1996 secondary interest. Staff calculated market values of the remaining portfolio companies as of March 31, 1999. Staff reviewed significant terms of the limited partnership agreement relating to management fees and carried interest allocations. Staff reviewed and

validated the General Partners' valuation methodology, and calculated asset values based on the net/net value to the limited partners.

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Director of Alternative Investments

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Approved By:

/s/ Patrick Mitchell  
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